



Auditor of Public Accounts  
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**FOR IMMEDIATE RELEASE**

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**Edelen Releases Audit of Menifee County Fiscal Court**

**FRANKFORT, Ky.** – State Auditor Adam Edelen has released the audit of the financial statements of the Menifee County Fiscal Court for the fiscal year ended June 30, 2011. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

**The county transferred from restricted funds in excess of allowable amounts.** The County transferred a net of \$740,657 from the Road Fund to the General Fund. The allowable amount per the *Road Fund Cost Allocation Worksheet* was \$320,280. The county exceeded this amount by \$420,377. In addition, the prior period audit calculated \$28,434 due to the Road Fund from the General Fund. The total due from General Fund to Road Fund is \$448,811. Road monies are restricted for purposes of road expenses. The county is allowed to transfer Road funds to the General fund to help offset the cost of administration and general expenses. The amount to be transferred is calculated during the budgeting process on the *Road Fund Cost Allocation Worksheet* and the amounts transferred must not exceed this amount. We recommend the county repay the Road Fund for restricted funds transferred in excess of allowable amounts. Additionally, we recommend the county comply with fund restrictions in the future.

*County Judge/Executive's response: Scheduled payment plan will be made to the Road Fund from the General Fund until owed amount is paid in full. County Treasurer, Finance Officer, and Judge Executive are aware that transfers from Road Fund can not exceed amount per the Road Fund Cost Allocation Worksheet and will not exceed allowable transfer amount in the future. Furthermore, \$514,000 of total*

*transfers occurred under previous Judge Executive and current Treasurer was not employed during any time of the audited year.*

**The General Fund had a deficit balance at year end.** The County expended more than funds available in the General Fund, resulting in a negative cash balance of \$3,132 at year-end. After all other outstanding invoices and amounts payable are accounted for the General Fund had a total negative fund balance of \$516,470. KRS 68.110(1) says, “The fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year...” Purchase orders and invoices should not be approved if sufficient funds are not available to cover the expenditure. Failure to adequately monitor cash balances can result in overspending, insufficient funds, and related fees and penalties associated with negative balances. We recommend the county closely monitor cash balances and cease the practice of approving expenditures if funds are not available.

*County Judge/Executive’s response: County Treasurer and Finance Officer are collectively aware that purchase orders and invoices will not be paid if there are insufficient funds to cover expenditures. Judge Executive inherited financial problems from past administration and had to take appropriate actions to provide quality services to citizens of Menifee County.*

**The county had significant outstanding invoices at year end that were not properly reported.** Auditors noted numerous invoices outstanding at year end that should have been paid. These outstanding liabilities result in negative fund balances for the General Fund, Road Fund, Jail Fund, Parks Fund, Wellness Fund, and 911 Fund. The following schedule shows the total of invoices outstanding for longer than the allotted time frame.

<u>FUND</u>	<u>Amount</u>
General	\$ 61,028
Road	38,860
Jail	159,533
Parks	1,217
Wellness	586
Building Commission	1,173
911	11,123
	<u>          </u>
TOTAL	<u><u>\$ 273,520</u></u>

Invoices are required to be paid within 30 working days as outlined in KRS 65.140. The outstanding invoices were considered liabilities and decreased the cash balance in each fund by the amount noted. Failure to properly account for liabilities can lead to improper financial decision making and misleads those who rely on the financial statements. We recommend the county pay all invoices timely so that none are left outstanding for significant time periods. Furthermore, we recommend the county properly account for and report outstanding liabilities.

*County Judge/Executive’s response: County Treasurer is aware that invoices are required to be paid within 30 days. Procedure already in place and being used to ensure that this is being done.*

**The county did not follow proper procedures for expenditures.** Numerous deficiencies were noted in the county’s internal control structure as it relates to expenditures. Procedure regarding

the documentation, preparation, and authorization of expenditures were not adequate and resulted in the following findings:

- Eight instances, totaling \$123,122, were noted in which proper documentation (i.e. invoices) for expenditures could not be located.
- Fifty instances, totaling \$835,488, were noted in which the county did not properly approve the transaction as documented on the claims list located in the fiscal court minutes.
- Eleven instances, totaling \$145,756, were noted in which the county did not pay the vendor within 30 days of receipt of invoice.

Two instances were noted in which proper bid documentation could not be located for two projects – purchase of Jailer’s vehicle and the fire department construction project.

Basic internal control procedures require the county to maintain documentation for every expenditure. This documentation should include, but is not limited to, invoices, purchase orders, packing/receiving slips, etc. Guidance regarding fiscal court approval is outline in KRS 68.275 (2), which states, “The county judge/executive shall present all claims to the fiscal court for review prior to payment...” In addition, KRS 65.140 (2) requires local governments to pay for goods and services within 30 working days of receiving an invoice. Furthermore, KRS 424.260 requires bids to be obtained on purchases and/or contracts exceeding \$20,000.

Failure to adhere to the guidelines outline above increases the risk that the county’s expenditures will be materially misstated or funds will be misappropriated. We recommend the county immediately implement procedures to ensure that all expenditures are properly documented, approved by the fiscal court, and paid timely. We also recommend the county seek competitive bids when required.

*County Judge/Executive’s response: Judge Executive/Finance Officer was administering from January to June 2011 and is unsure what steps previous administration took regarding expenditures. Procedures are in place and currently being used to prevent expenditure error is future. Adequate filing system in place to keep invoices and other required documentation in order; invoices not on Standing Orders are approved through fiscal court prior to paying; invoices are paid timely; and bids are taken for projects over \$20,000 in which Finance Officer obtains required paperwork.*

**The general fund owes the road fund \$3,500 for reimbursement of OSHA penalties.** During fiscal year 2011, the county was cited and assessed penalties for OSHA violations, mostly related to a workplace accident. The county paid the \$3,500 penalty out of the Road Fund but should have used General Fund monies due to the nature of the violations. We recommend the county reimburse the Road Fund \$3,500 from the General Fund.

*County Judge/Executive’s response: \$3,500 is to be transferred from General Fund to Road Fund on 11/14/12 following fiscal court approval of transfers.*

**The prior administration exceeded spending limits in seven funds.** The county expended more than the allowable amount in seven funds prior to December 31, 2010. The 2010-2011 fiscal year is the fourth year of the term and therefore the 65%-35% term ending restriction on spending was in effect. The following is a list of the funds and the percentage of budget capacity expended prior to December 31, 2010:

<u>FUND</u>	
General	83%
Jail	68%
LGEA	176%
Ambulance	66%
Parks	74%
Wellness	94%
Health Tax	78%

Pursuant to KRS 68.310, counties are restricted in the 4th year of a term in the amount they are allowed to expend. No county can encumber or expend more than 65% of each individual fund in the budget excluding debt service payments, grant expenditures, and capital projects funded with debt issuance. Expending more than the allowable amount puts a financial strain on incoming officials as related to the county's budget. We recommend the county adhere to 4<sup>th</sup> year term spending limits in the future.

*County Judge/Executive's response: Current administration can not help what past administration has done. Loan was taken to correct situation and current administration is aware that county is not to expend more than 65% of each individual fund in the budget excluding debt service payments, grant expenditures, and capital project funded with debt issuance in the future.*

**The county did not pay insurance premiums timely.** The county did not pay insurance premiums timely. In fact, premiums for the 2010-2011 fiscal year were not made until July 2011, which is after fiscal year end for the coverage period. The insurance company agreed to waive the penalties and interest accrued on the late payments. KRS 65.140 states, "Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice..." Failure to make payments timely is indicative of poor financial management practices and could lead to significant financial ramifications. In addition, these unpaid bills contribute to the encumbrances that caused the county to overspend the budget as of December 31, 2010 (as discussed in Comment 2011-06) and contributed to the outstanding liabilities noted for the General Fund, Jail Fund, Parks Fund, Wellness Fund, and 911 Fund (as discussed in Comment 2001-03). We recommend the county pay insurance premiums timely to avoid late fees and penalties.

*County Judge/Executive's response: Current Judge Executive had to meet with KACO board of directors along with county's agent, Sue Porter, to correct what past administration failed to pay. Penalties of \$13,000 were waived due to efforts taken by Judge Executive. Also, county had to obtain loan with Ross Sinclair and Associates in order to pay outstanding premiums. Future premiums were paid timely by current administration.*

**The county did not prepare a schedule of expenditures of federal awards.** The county did not prepare a Schedule of Expenditures of Federal Awards (SEFA). A SEFA report is the first step in determining if the county is required to have an OMB Circular A-133 audit, also known as a federal "Single Audit". The county expended \$481,610 in federal grants whereas the Single Audit threshold is expenditures exceeding \$500,000. The county's failure to monitor, track, and report federal grants could lead to improper financial reporting as well as failure to comply with OMB Circular A-133 requirements. Additionally, this could impact future grant awards. We recommend the county immediately implement procedures to monitor, track, and report federal grants in order to comply with federal regulations.

*County Judge/Executive's response: County Treasurer is currently tracking federal grants in order to comply with federal regulations.*

**The county did not maintain capital asset schedules in accordance with GASB 34 requirements.** The county did not maintain a complete and accurate capital asset schedule for fiscal year ending June 30, 2011. GASB Statement No. 34 requires governments to maintain a list of all capital assets (i.e. land, buildings, equipment, vehicles, infrastructure, etc.) for inclusion on the financial statement. This list should include all current year additions/purchases, retirements, disposals/sale of assets, etc. Any related documentation for capital asset additions, retirements, and disposals in the form of invoices, deeds, purchase orders, sales records, titles, liens, etc. should be maintained in a manner that facilitates easy access, retrieval, and verification of capital asset amounts recorded. We recommend the county implement procedures to identify and track capital asset additions, retirements, and disposals in order for capital asset schedules to be complete and accurate. Additionally, we recommend the county perform physical inventories periodically to further ensure the accuracy and completeness of capital asset schedules.

*County Judge/Executive's response: Current administration has taken inventory of capital assets and intends on periodically monitoring inventory. Likewise, County Treasurer is maintaining a capital asset spreadsheet and is updating accordingly. Related material to support additions to capital asset schedule is included with the schedule so all information is filed in one place.*

**The county did not pay off notes outstanding by fiscal year end.** The county executed two notes during fiscal year 2011 with the local bank. The total of these notes was \$361,250 and they were still outstanding as of June 30, 2011. The county secured additional financing (in the form of leases) to pay off these notes in July 2011. However, KRS 65.7707 states, "Notes payable shall mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued." We recommend the county closely monitor note maturity dates and ensure that notes are paid off by June 30 in the future.

*County Judge/Executive's response: Current administration inherited these loans. Money was borrowed from Ross Sinclair and Associates to correct this situation. Furthermore, current administration is aware to closely monitor note maturity dates and ensure that notes are paid off by end of fiscal year in the future.*

**The former county treasurer did not prepare, publish, or present an annual settlement.**

The former county treasurer did not prepare and publish an annual settlement nor did she present it to the fiscal court as required. KRS 424.220 requires the county treasurer to prepare an itemized statement of all funds collected and received, held, or disbursed during the fiscal year. The statement is required to show:

- the total amount collected and received from each individual source
- the total amount of funds disbursed to each individual payee and the purpose for which it was expended. The amount of salaries paid to non-elected employees shall be shown as a lump sum expenditure by category (i.e. road department, solid waste, administrative personnel, etc.).

The statute also requires the county to publish the annual settlement or to publish the annual audit in lieu of publishing the financial statement. KRS 68.020(5) requires the county treasurer to make full and complete settlement with the fiscal court within 30 days of the close of the fiscal year. In addition, KRS 68.050 requires an outgoing treasurer to make full and complete settlement with the fiscal court. Evidence of this could not be located in the fiscal court minutes.

We recommend the county treasurer comply with the requirements of KRS 424.220 and KRS 68.020 and prepare, publish, and present a complete and accurate settlement each year.

*County Judge/Executive's response: Current Treasurer is aware to make full and complete settlement with fiscal court within 30 days of the close of the fiscal year. Also, current Treasurer is aware of publishing requirements. 2012 Annual Settlement was presented to fiscal court and publishing requirements were met.*

**The county did not review the administrative code annually as required.** The county did not review the administrative code as required. KRS 68.005 requires the fiscal court to review the administrative code in June and, by two-thirds majority, may update and make changes as necessary. We could not locate documentation that this has occurred. We recommend the fiscal court review the county's administrative code, personnel policies, and ethics code each year and make changes and modifications as appropriate. We recommend this action is reflected in the fiscal court minutes.

*County Judge/Executive's response: ADD District has prepared and updated policy for County to adopt as changes were needed for Administrative Code. Administrative Code was scheduled to be presented to fiscal court during March's meeting; however, tornado occurred at first of month and priorities changed for that meeting's agenda.*

**The county does not have adequate controls over expenditures, capital assets, debt, inter-fund transfers, and federal grants.** Several deficiencies were noted regarding the control procedures for expenditures, capital assets, debt, inter-fund transfers, and federal grants. These deficiencies resulted in the numerous compliance issues noted in previous comments. The following control issues were noted which inhibits the county's ability to properly record, classify, and report transactions for expenditures, capital assets, debt, inter-fund transfers, and federal grants:

- Adequate supporting documentation is not maintained for all expenditure transactions.
- Adequate schedules are not maintained for capital assets.
- Adequate supporting documentation is not maintained for notes and leases.
- Proper procedures are not in place to ensure proper recording of all inter-fund transfers.
- Proper procedures are not in place to ensure proper recording of certain expenditure and debt service transactions.
- Proper approval is not obtained for certain transactions.
- Some checks are not mailed even though the governing body approved payment to be made.
- Several items are not paid timely.
- Federal grants are not adequately monitored, tracked, and reported on a Federal Monies Worksheet

In order for the county's financial statement to be free of material misstatement, it is essential that procedures are in place to ensure the accuracy, validity, and completeness of all transactions, including maintaining adequate supporting documentation for all transactions. We recommend the county implement the following procedures to strengthen controls and to limit the amount of noncompliance issues noted in the future:

- Retain adequate supporting documentation for all transactions
- Maintain adequate capital asset documentation and information

- Record all transactions accurately and in the appropriate fund, account code, line item, etc.
- Present all transaction to fiscal court for approval
- Pay invoices timely and in compliance with all statutes and regulations
- Track and report information related to all federal grants for Single Audit purposes

*County Judge/Executive's response: Current administration adheres to record keeping requirements and works to ensure that procedures currently in place strengthen controls to limit number of noncompliance issues in the future.*

**The county does not have proper controls over the budgeting process.** The following items were noted regarding the county's budget:

- The county's original budget did not zero for General Fund and Ambulance Fund due to the budget amounts not adding correctly. Budgeted amounts for Transfers In were not included in the total available, thus decreasing the budget capacity for expenditures.
- The county's original budget did not include prior year carryover amounts.
- Amounts recorded on the 4<sup>th</sup> quarter report for budgeted prior year carryover amount did not agree to the actual original budget as no amounts were included in the original budget for prior year carryover.
- Line item appropriation transfers did not zero out in each fund or in total.

A good internal control structure ensures that budgets for all funds are complete and accurate. Elements of this include: The original budget should add correctly, all applicable sources of funds/revenues and all anticipated expenditures should be included, amounts recorded on reports should agree to the actual original budget, and line item transfers should zero out in each fund, or at least in total. We recommend the county implement procedures to ensure that the budgeting process is complete and accurate.

*County Judge/Executive's response: The budget for this audit was prepared by past administration. 2011-2012 budget was prepared by the Department for Local Government. The budget for 2012-2013 was prepared by Judge Executive and staff in which budget was thoroughly reviewed prior to submission to fiscal court.*

**The county did not include three funds on the financial statement.** The County's 4<sup>th</sup> quarter financial statement did not include information related to the Health Department Construction Account, Public Properties Corporation Accounts, and the Animal Shelter Construction Account. The Health Department Construction Account and the Animal Shelter Construction Account are Capital Project Funds set up to account for the construction activities for a new Health Department and an Animal Shelter. The Public Properties Corporation accounts are Debt Service Funds used to account for debt service activities. The total activity in these funds was material to the financial statements. One component of complete and accurate financial reporting is to include all funds and accounts on the financial statement. Failure to include these funds can lead to inaccurate and incomplete financial information, which could lead to improper decision making by the government. We recommend the county ensure that all financial activity for all funds is included in future financial statements.

*County Judge/Executive's response: It is the procedure of the current administration to ensure that all funds are represented on the financial statement.*

**The county did not maintain proper records for the public properties corporation.** The County did not maintain receipt and disbursement ledgers for the Menifee County Public Properties Corporation (MCPPC). Furthermore, the county did not prepare a financial statement with all the MCPPC financial information included. The MCPPC is used to account for the payment of debt for the courthouse/annex renovation and the reimbursement of such payments from the Administrative Office of the Courts. Since the county is financially accountable and legally obligated for the debt of the MCPPC, it is a blended component unit of the county. The county is required to record and report all activity for the MCPPC in order for the county's financial records to be complete and accurate. We recommend the county maintain receipt and disbursement ledgers for MCPPC activity and prepare an annual financial statement summarizing all activity.

*County Judge/Executive's response: County Treasurer is maintaining receipt and disbursement ledgers for MCPPC activity and will prepare an annual financial statement summarizing activity as required.*

**Payments for inmate housing were not properly remitted.** During the period July 2010 through December 2010, the fiscal court approved payments totaling \$118,300 to be made to the Montgomery County Jail for housing inmates. None of these payments were actually remitted and the county owed Montgomery County Jail \$155,254 at year end. In addition, there were two checks issued in the prior year, which were outstanding at year end, to the Montgomery County Jail for housing prisoners totaling \$46,516. These checks were approved by the fiscal court, but were never remitted to the vendor and were subsequently voided. It is not an appropriate financial management practice to prepare checks for payment and obtain approval for the fiscal court unless the funds are available to do so and remittance to the vendor is imminent. Furthermore, this practice is deceptive and misleading to members of management and other users of the financial statements. We recommend the county only approve payments for which the funds are available. Additionally, we recommend that payments to vendors occur immediately after approval is obtained and all other required documentation and signatures are secured.

*County Judge/Executive's response: This situation is a part of the inherited debt from the previous administration. Current administration worked with Montgomery County Regional jail to set up a payment plan of \$5,000 per month. Payment plan will continue until outstanding balance of \$95,000 is paid in full.*



**The county did not maintain adequate documentation related to debt.** The county did not maintain adequate documentation related to short term and long term debt. The county had a short term note for \$300,000 that was renewed several times during the year for which no documentation was available. Additionally, auditors noted one ambulance lease for which no documentation could be located and management was not aware of. The lease was executed in 2010, but was not reported due to inadequate procedures related to debt. In order for financial statements to be complete and accurate, the county must accurately account for and report all notes, leases, loans, etc. Furthermore, good internal control procedures require officials to maintain copies of all documents related to debt. We recommend the county improve documentation procedures and financial reporting practices related to debt in order to ensure financial statements are complete and accurate.

*County Judge/Executive's response: Traditional Bank had records regarding \$300,000 debt that was incurred under past administration. Ambulance service is now its own taxing district and is therefore required to maintain all records regarding their debt, etc. Current administration has protocol in place to ensure that financial statements are complete and accurate.*

**The county did not maintain adequate documentation for credit card purchases.** Credit card transactions totaling \$17,852 did not have adequate supporting documentation to allow auditors to determine the appropriateness of such expenditures. In addition, credit card statements could not be located so auditors obtained duplicate statements from the company. Credit card purchases are inherently risky due to the lack of prior approval and the summarized nature of credit card statements. Good internal controls dictate the county maintains credit card statements and each user submit detailed receipts for all purchases in order to document the expenditures and avoid inappropriate purchases, misuse of county funds, and/or abuse of taxpayer resources. We recommend the county implement strict documentation procedures regarding credit card transactions in which all purchases are adequately documented and all credit card statements are maintained.

*County Judge/Executive's response: Credit card usage has significantly declined under current administration. Treasurer maintains monthly credit card statements with corresponding verification of authorized purchases.*

**Transfers between funds were not recorded properly.** Totals for Transfers In and Transfers Out among all funds did not total to zero. There were \$1,538 in transfers from the General Fund bank account to other funds. These amounts were properly recorded as Transfers In in the respective funds, but were not recorded as Transfers Out in the General Fund. They were recorded as miscellaneous expenditures. In addition, \$90 of transfers from the General Fund bank account were not recorded as revenues of the funds that received the monies. Furthermore, a total of \$42,000 of transfers into the Ambulance Fund were incorrectly coded and classified as transfers out. In order for financial statements to be complete and accurate, it is essential that all transactions be coded and recorded properly. Transfers between funds must zero out in total. This cannot happen when transfers are recorded incorrectly. We recommend the county ensure that all transfers in and out be recorded properly, completely, and accurately.

*County Judge/Executive's response: Current Treasurer obtains approval for all transfers through fiscal court. An AE Transfers Report and Cash Receipts Journal is printed to ensure that transfers total zero. Also, Treasurer ensures that all transactions are coded and recorded properly.*

**The county paid late fees on debt payments.** The County incurred \$1,265 in late fees related to debt payments for making payments after the due date. Late fees are unnecessary and a wasteful use of taxpayer resources. It is also indicative of poor financial management practices and could result in default on debt obligations. We recommend the county pay debt payments timely to avoid unnecessary late fees.

*County Judge/Executive's response: Current administration has procedures in place to ensure that bills are paid timely as long as funds are available to pay such bills.*

*Additional County Judge/Executive's response to all audit findings: This audit reflects 6 months under the past administration (July through December 2010) and 6 months under current administration (January through June 2011). Also, there was a change of County Treasurer on July 18, 2011; therefore, none of the work reflected in this audit was done by current Treasurer.*

The audit report can be found on the [auditor's website](#).

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